

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 3, 2003

1:05 p.m.

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Hugh Fate, Co-Chair
Representative Beverly Masek, Vice Chair
Representative Cheryll Heinze
Representative Bob Lynn
Representative David Guttenberg

MEMBERS ABSENT

Representative Carl Gatto
Representative Kelly Wolf
Representative Beth Kerttula

COMMITTEE CALENDAR

CONFIRMATION HEARINGS

Alaska Oil and Gas Conservation Commission

Sara Palin - Wasilla

Randy Ruedrich - Anchorage

- CONFIRMATION(S) ADVANCED

Commissioner, Alaska Department of Fish and Game

- SCHEDULED BUT NOT HEARD

PREVIOUS ACTION

No previous action to record

WITNESS REGISTER

SARA PALIN, Appointee
to the Alaska Oil and Gas Conservation Commission
Wasilla, Alaska

POSITION STATEMENT: Testified as an appointee to the Alaska Oil and Gas Conservation Commission; provided background information and answered questions.

RANDY RUEDRICH, Appointee
to the Alaska Oil and Gas Conservation Commission
Anchorage, Alaska

POSITION STATEMENT: Testified as an appointee to the Alaska Oil and Gas Conservation Commission; provided background information and answered questions.

ACTION NARRATIVE

TAPE 03-9, SIDE A

Number 0001

CO-CHAIR HUGH FATE called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Fate, Chenault, Heinze, Masek, and Guttenberg were present during the call to order. Representative Lynn arrived as the meeting was in progress.

CONFIRMATION HEARING

Alaska Oil and Gas Conservation Commission

CO-CHAIR FATE announced the only order of business would be the confirmation hearings on the appointments of Sarah Palin and Randy Ruedrich to the Alaska Oil and Gas Conservation Commission.

Number 0159

The committee took an at-ease from 1:06 p.m. to 1:10 p.m.

Number 0255

SARAH PALIN, Appointee to the Alaska Oil and Gas Conservation Commission (AOGCC), testified. Ms. Palin said the pipeline is half full, which translates into questionable funding for the Alaska State Troopers, education, road maintenance, and other state essentials. She said she appreciated being [appointed] to a public seat to help maximize the recovery of Alaska's resources for all Alaskan's. She said AOGCC's task is to maximize recovery and to eliminate waste, and her role at AOGCC will be to play a part of that. She talked about using the administrative skills that she gleaned as the [former] mayor of

Wasilla and as president of the Alaska Conference of Mayors, and she said she believed she would be able to help in the AOGCC.

Number 0422

REPRESENTATIVE MASEK asked Ms. Palin what qualified her for this position.

Number 0439

MS. PALIN indicated that the position requires being a member of the public and does not require a technical background. Therefore, she suggested, she is qualified for the position, and she referred to her resume for an explanation of her employment history. She said as a lifelong Alaskan, she is very interested and concerned about the oil and gas industry and all of the resources in Alaska. She said she thought the combination of her qualifications, her interest, and her concerns would allow her to serve and assist the commission.

Number 0528

REPRESENTATIVE HEINZE said Ms. Palin was a "shining star" in the [mayoral] election and that the people of Alaska have come to trust her. She indicated she was in support of Ms. Palin's appointment to AOGCC.

Number 0583

REPRESENTATIVE GUTTENBERG suggested that the public position is very important, and he asked Ms. Palin what her perspective was of the role of AOGCC.

MS. PALIN suggested that perhaps AOGCC has been underutilized in terms of outreach and cooperative efforts with other agencies, departments, and commissions, which she said are needed to maximize recovery of the state's resources. She said she envisions her role as being instrumental in ensuring that AOGCC is utilized appropriately and is able to work with the public in educational matters and with other necessary agencies. She talked about a resolution which was passed by the permanent fund board of trustees that related to oil and gas issues. She noted that the [commission] is still discussing the resolution and the direction it will take, and she explained that the resolution asked AOGCC to be prepared to take action to increase production from state leases. She said this means that AOGCC is going to have to do some outreach and be utilized in terms of reaching

out to other areas, bodies, and public members to work together to ensure that the permanent fund resolution is addressed appropriately.

Number 0768

REPRESENTATIVE GUTTENBERG noted that Ms. Palin's husband works for the [oil] industry, and he asked her how she felt about the potential of a conflict of interest.

MS. PALIN indicated that her husband is employed by [BP Exploration (Alaska), Inc.] as a production operator. She said her husband has nothing to do with management or policy setting and doesn't request drilling permits. Ms. Palin said her husband's role in the industry is not anything that AOGCC would be dealing with. She said she had talked with several [officials], including the governor and his chief of staff, about the potential for a conflict, and she indicated she has tried to ensure that people are aware that her husband is an employee of the industry, so it is never a question. She indicated that a current AOGCC commissioner, Dan Seamount, has a potential conflict because his wife is employed as a manager for a company in the industry. Ms. Palin said Mr. Seamount was confirmed to [AOGCC] and hadn't had an issue with conflicts. She suggested that Mr. Seamount's situation has set a precedent that [having a spouse who works in the industry] should be okay. She said this dictates that people with potential conflicts must prove themselves to be fair and objective in dealing with [the industry].

REPRESENTATIVE GUTTENBERG said he appreciated Ms. Palin's efforts to meet a higher standard, and he suggested that all [Alaskan's] have a vested interest in the health of the oil and gas industry in the state.

CO-CHAIR FATE asked Ms. Palin if she has had time to study [AOGCC's] mission and responsibilities.

MS. PALIN said she had been studying the mission and she wondered if the legislature would request AOGCC to "shift gears" or expand its mission to help meet more of the legislature's goals.

CO-CHAIR FATE asked Ms. Palin if she had a clear understanding of her responsibilities on the commission.

MS. PALIN indicated her understanding of her responsibilities is becoming clearer, and she suggested that some staff who have experience are still "maneuvering through." She said it is known that the appropriate agencies are working together for the greater good of maximizing the recovery of the state's resources. Ms. Palin suggested that several departments such as the Department of Natural Resources (DNR), the Department of Revenue, and the Department of Environmental Conservation (DEC) are involved. She suggested that AOGCC's mission statement is open to interpretation and that she and others would have to maneuver through it to ensure [they all have the same understanding].

Number 1102

CO-CHAIR FATE suggested the Federal Energy Regulatory Commission (FERC) would be [involved with a future gas pipeline in Alaska] and that there would be times when AOGCC and FERC [disagree]. He asked Ms. Palin if she thought her involvement as a commissioner of AOGCC would be necessary in that situation.

MS. PALIN said AOGCC's job is to protect the public interest in the exploration and development of the state's oil and gas resources, and to maximize the ultimate recovery while protecting property rights, the environment, and the health and safety of [the public]. She indicated AOGCC would be involved because [of its obligation] to protect the public interest.

CO-CHAIR FATE said the Regulatory Commission of Alaska (RCA) and FERC will be setting tariffs that are based on production, and he suggested that production is what the AOGCC would be involved in. He suggested that production and the eventual terms that are set for the tariff could be of some interest to AOGCC.

MS. PALIN said she could foresee the AOGCC playing an advisory role at the very least, and working with [FERC] in those "value issues" on recovery.

Number 1316

REPRESENTATIVE LYNN told Ms. Palin that he thought that she would be an excellent public member of the commission because of her background and her long-demonstrated ability to listen to concerns and communicate concerns to a broad range of Alaskans. He expressed strong support for Ms. Palin's appointment to AOGCC.

Number 1375

RANDY RUEDRICH, Appointee to the Alaska Oil and Gas Conservation Commission, testified. Mr. Ruedrich said he has an interest in this commission, since much of the governor's concept of "turning Alaska around" relates to increasing oil and gas production. He said he felt it was terribly important for someone who has a long, positive knowledge of oil and gas activities to be on the commission. Mr. Ruedrich said his career goes back to the early 1970s when he was involved in determining the actual permafrost loads on casings. He mention putting the whole concept of resource recovery in jeopardy. He said the field rules are still related to that work that was done and published in 1975. He said he got intrigued by Alaska and came north to work on the Slope full-time as a drilling engineer and drilling foreman.

MR. RUEDRICH explained that his career led him to other places to do the same thing, but it always led him back to Alaska. He said it ultimately led him to coming back in 1994, to work for Doyon, Limited, on the contractor side after 25 years in the operator side of the business, and more recently to working for small lease holders that have the ambition to do things in Alaska. He said he had been looking at trying to maximize production, and at the entire gambit from the Cook Inlet to the North Slope, to ensure that there is as much of a healthy economy derived from "this side of the equation" as possible. Mr. Ruedrich said he thought it was one of the most useful things he could do for Alaska, and felt it was the right thing to do. He said he was very pleased when Governor Murkowski appointed him to the commission.

Number 1538

REPRESENTATIVE HEINZE told the committee that she knew Mr. Ruedrich personally and held him in high regard. She asked Mr. Ruedrich for his response to an [Anchorage Daily News] editorial [regarding his involvement in the political process].

MR. RUEDRICH said he had already, because of changes in federal law, taken steps to not be involved as the functional chairman for state activities for the Republican Party. He said the "central committee" has already defined that as the role of Ms. Paulette Simpson, and that his involvement in the political process is strictly relative to the federal side of the Republican Party. He said there are virtually no "relational activities" between being on the commission and those types of

activities. Mr. Ruedrich said he felt that there was no conflict or issue at hand, since all of the state activities will be under the able direction and control of Ms. Simpson, who is vice-chair of the party and chairman for state operations.

Number 1640

REPRESENTATIVE GUTTENBERG noted Mr. Ruedrich's comment about not being interested in [AOGCC] until recently. However, he said, Mr. Ruedrich's resume suggests he'd been involved in this field all of his life. He applauded Mr. Ruedrich for his continuing responsibility and expanded roles, and he said [AOGCC] seems like a good place for somebody with his expertise. Representative Guttenberg talked about the role of the party chair and about the reorganization of state and national roles. He said parties have a responsibility to "do quite a bit of reorganizing as they want, also." He remarked, "I can't see how you can separate them out."

MR. RUEDRICH said current federal law makes doing the separation very straightforward. He explained that under the Bipartisan Campaign Reform Act of 2002, to be involved in both federal activities and nonfederal activities - in other words, state activities - could be found to be a federal felony. He said the federal sentencing guidelines have been defined at this time as a one-to four-year prison term. He said the [Bipartisan Campaign Reform Act] makes it very apparent that defining rigorous separation of authority is necessary, and under that law, no single entity can be both on the federal and the state side at the same time. He suggested that it is only natural that there is a division of authority to adhere to the new federal law, and he said it's with that in mind that in January, the Republican Party took those steps to be in compliance before new activities were engaged in, after the most recent election cycle. He said the rationale is bound by federal law to the level of criminal misconduct if one goes beyond it, so it is very straightforward and will be followed very carefully. He remarked, "The state side, essentially, it drops out as a positive by-product of my disassociation that they're in."

REPRESENTATIVE GUTTENBERG said he assumed Mr. Ruedrich would not be attending any party functions.

MR. RUEDRICH said he did not attend the House Majority event that was held in Juneau. He said the state convention this coming year will essentially be a federal convention and will be carried as a federal activity to elect delegates to go to the

national convention. He said different events will have different connotations, and for that reason would be defined, and he would not be participating either as host, sponsor, or participant in House or Senate activities in this state for those [events]. He said he would potentially be participating in things that are related to the federal side of political operations, which are, by law, differentiated.

REPRESENTATIVE GUTTENBERG expressed concern about the public's perception.

MR. RUEDRICH said to his knowledge, there has not been anyone from the petroleum industry who has appeared as a speaker at a Republican Party event in more than five years, and he doesn't recall ever having had such happen. He said it is not something that would be terminated; it's something that's never even happened.

REPRESENTATIVE GUTTENBERG said there is a strong perception that there would be a conflict and he thought the Anchorage Daily News editorial illustrated that. He said he is concerned.

Number 1948

MR. RUEDRICH assured Representative Guttenberg that his duties will be to this job as a state employee, to maximize production and revenue, as is appropriate, under the statutes granted to [AOGCC] by the legislature. He said it would be his intent to have no involvement in those endeavors that are related to electing [officials] to state office, since those are, by federal law, clearly separated. Mr. Ruedrich said he has a limited desire to raise the potential for grounds for an investigation, much less for a conviction, so he would be very diligent at not giving the perception of any involvement in the House and Senate activities for the 2004 election cycle.

REPRESENTATIVE GUTTENBERG said Mr. Ruedrich kept referring to the House and Senate campaign committees.

MR. RUEDRICH said the governor's campaign will not be until 2006, and the same rules would apply.

REPRESENTATIVE GUTTENBERG said the Republican Party of Alaska was able to receive both federal and state donations.

MR. RUEDRICH said clearly the Republican Party of Alaska will have to have very distinct - as it always has had - but now

separated events, rather than singular events for fundraising. He said there would be federal fundraising and nonfederal fundraising activities.

Number 2065

REPRESENTATIVE LYNN told Mr. Ruedrich that his resume reflects an exceptional list of qualifications for this position. He said considering the role that oil and gas is going to play in the future of Alaska, he couldn't imagine appointing anybody else to this position. He said he was in support of Mr. Ruedrich's appointment to AOGCC.

CO-CHAIR FATE turned attention to Mr. Ruedrich's professional qualifications, and he asked if the applicable engineering percentage represents the amount of time he had spent in specific engineering endeavors.

MR. RUEDRICH remarked:

What I tried to do there is, instead of looking at the total time served and saying it's kind of an engineering job [and] therefore ... the entire time would be applicable, I looked at what the job was. ... For example, the research engineer role from '72 to '75 was totally involved in the subsurface engineering work for Prudhoe wells, so it's 100 percent applicable.

The time spent later, in the early '80s, for example, the two-year period, about half of that time was spent in such tasks as managing people and related operational issues that were not truly engineering. So, that's about a 50 percent activity, or half the time would count toward applicable time to be a down-hole engineer or surface process engineer, the two items that are the principal attributes identified in this position as it is defined in statute or in regulation.

The time I spent in the North Sea, ... the job title was operations manager; a huge portion of that time was spent investigating a highly complicated technical venture in terms of a failure of well-control equipment and participating in a formal inquiry, which took almost two full years of the time I was in the UK [United Kingdom], and so while I had a generalized job

title, a lot of this was just a very high level of technical engineering work.

Number 2228

Subsequent to that and in parallel with that when I was not engaged in that project, there were productions operations activities, as well as drilling activities, that had pure engineering content, as well as what I would call management oversight. ... What I've tried to do is characterize in each of those facets of my past the percentage of the time that was ... [related to] engineering, rather than supervising human resource issues and budgets and so forth.

To try to come up with a proper characterization of what one does in about a ... 33-year professional lifetime, ... since I graduated from school with a doctorate in engineering -- and I characterize that as having about 20 years that are directly applicable to the skills that are defined in this particular role of subsurface work as a functioning petroleum engineer.

... In 1983 ... [and 1984], I was the ... chairman of the local society petroleum [of] engineers chapter, and in ... 1980, I was the vice chairman of the San Joaquin Valley, Bakersfield, California, chapter of the society of petroleum engineers. So, as a chemical engineer by degree, I have basically worked my entire career, by definition, as a petroleum engineer working in subsurface and pipeline related work.

CO-CHAIR FATE asked Mr. Ruedrich how he thought he would use his background of experience in the position of commissioner.

Number 2337

MR. RUEDRICH said his hope is that [AOGCC] can be flexible and creative enough, both as a regulatory body and as a technical entity, to ensure that new technology comes into play in an orderly manner in the Alaskan oilfields, and [that AOGCC] has the opportunity to provide reliable "public-sector technical input" to whatever major projects might be seen for gas offtake from the North Slope, whether those are gas-to-liquids or pipelines. He suggested that the future production of that resource is important to the state. Mr. Ruedrich suggested that [AOGCC] is an excellent "spokesman" for the public of Alaska in

ensuring that is reinforced by the state government by people who have long-term continuing positions as commissioners at AOGCC.

Number 2397

CO-CHAIR FATE asked Mr. Ruedrich if he believed being the head of a major political party would have an effect on his performance as a commissioner.

MR. RUEDRICH, in response, said absolutely not.

Number 2441

REPRESENTATIVE LYNN made a motion to move the nominations of Sarah Palin and Randy Ruedrich to the Alaska Oil and Gas Conservation Commission forward to the full bodies for consideration. There being no objection, the confirmations of Sarah Palin and Randy Ruedrich were advanced from the House Resources Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:03 p.m.